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TAGS: [ECON](#) [ETRD](#) [EFIN](#) [ECIN](#) [EINV](#) [TU](#)
SUBJECT: TURKEY: HORMATS-BABACAN BILATERAL

REF: ANKARA 1352

Classified By: Ambassador James Jeffrey for reasons 1.4 (b) and (d).

¶1. (C) Summary. During an October 6 meeting with Deputy Prime Minister Ali Babacan, U/S for Economic, Energy, and Agricultural Affairs Robert Hormats reiterated President Obama,s commitment to strengthening our economic partnership with Turkey. Babacan welcomed the U.S. focus on the economic relationship, lamenting that it lacks the intensity of the political and military relationship. While Babacan repeated the GOT talking points that the positions of Turkey and the IMF were "converging" toward an agreement, he stressed that an IMF agreement is "not a must". U/S Hormats raised pharmaceutical sector concerns with GOT plans for closing the social security budget gap and expressed his hope that the GOT would be able to reach a constructive solution with the pharmaceutical industry. U/S Hormats also advocated on behalf of Boeing and Sikorsky, which are pursuing multi-billion dollar contracts in Turkey. End Summary.

¶2. (U) On October 6, U/S for Economic, Energy, and Agricultural Affairs Robert Hormats, accompanied by Ambassador Jeffrey, met with Turkish Deputy Prime Minister Ali Babacan on the margins of the IMF/World Bank annual meetings.

Strengthening the U.S.-Turkish Economic Partnership

¶3. (C) U/S Hormats praised Turkey,s productive role in the G-20 and emphasized that it had earned its seat. He reiterated President Obama,s commitment to strengthening our economic partnership, stressing that economics is the "third pillar" of our relationship with Turkey, which includes our strong political and military relations. Babacan welcomed the U.S. focus on economic relations, lamenting that they have only a fraction of the intensity in our political relations. Babacan stated that the U.S. and Turkish business communities must see a "bright green light" from both our governments. U/S Hormats noted that he had delivered this message both in a meeting with the Turkish Union of Chambers and Commodity Exchanges (TOBB) and in a speech to the American Business Forum in Turkey (ABFT). He emphasized that

the U.S. is open to any ideas for expanding commercial and economic ties. U/S Hormats also emphasized our strong support for the Southern Corridor and noted the positive economic benefits of Nabucco for Turkey.

IMF Deal

14. (C) In response to U/S Hormats's question about the potential for an agreement with the IMF, Babacan noted that Turkey recently outlined a medium-term economic plan that included fiscal targets and structural reforms. He stressed that tightening fiscal policy remains the big question. U/S Hormats noted that Turkey's 2001 IMF program had been useful in defining fiscal boundaries. Babacan emphasized that rather than waiting for an IMF agreement, the GOT had implemented its program, which has been effective because the GOT has ownership. Babacan noted with pride that Turkey's negotiations with the IMF are generally longer than those of other countries because Turkey actually studies the details, whereas most countries "just sign" the agreement handed to them by the IMF. He stated that Turkey would like to have an IMF program, but that it was "not a must" because the Turkish economic plan is self-sustaining. Repeating the GOT's oft-used talking point, Babacan stated that the IMF and GOT are "converging" and that they are closer than five months ago. Note: We believe that while Turkey could survive and even grow slowly without a deal, getting one would boost Turkey's growth and help avoid crowding out private capital by rollover of Turkish Treasuries. End note.

Boeing and Sikorsky

15. (C) U/S Hormats advocated on behalf of Boeing and Sikorsky, which are both in competition for multi-billion dollar deals. Babacan noted that he recently participated in a lunch in New York with corporate executives, including those from Boeing and Sikorsky. Babacan highlighted that Turkish Airlines (THY) is one of the few airlines placing orders instead of canceling them. He noted that THY already has Boeing 777s and has been very happy with Boeing. He emphasized that every purchase is different due to pricing and other factors, but stated that Turkish Airlines is trying to "keep balance" between Boeing and Airbus. T{!Hawks were safe.

Pharmaceutical Concerns

16. (C) U/S Hormats noted the positive contribution of the pharmaceutical sector to Turkey's economy and noted the concerns of the industry over the GOT's recent pricing decrees (reftel). Hormats stressed that the United States did not want to get in the middle but expressed his hope that a constructive solution could be reached between the GOT and the pharmaceutical sector. Babacan stressed that pharmaceuticals represented an ever-increasing strain on the budget, with costs increasing from about 4-5 billion TL in 2003 to roughly 16 billion TL in 2009. In these circumstances, he argued, "we had to do something" and the pharmaceutical sector's increased profitability and revenue should allow it to compensate. He noted that the government had already engaged in nine rounds of intensive negotiations with the pharmaceutical companies, including five rounds with ministerial participation. He complained that the companies could not agree among themselves. He said that he is still open to discussions, but stressed that the industry must reach agreement. Comment: Babacan's argument ignores the fact that the large increase in expenditure on pharmaceuticals came about because of the GOT's expanded health care policies, not from price gouging by the firms. Average pharmaceutical prices per unit have actually declined since 2003, both because of higher volume and because of previous GOT mandatory discounts. In a positive sign, however, the Ministry of Health met with the pharmaceutical companies later in the day on October 6 and is currently reviewing their proposals for alternative methods to achieve cost savings. End comment.

Comment

17. (C) Babacan was clearly encouraged by the@
Qe Turkey could survive and even
grow without a deal, reaching agreement would help accelerate the process.

18. (U) U/S Hormats has cleared this cable.

JEFFREY

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